

EXHIBIT 18

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Verizon Preps Challenge to Google's App Store



By Amir Efrati

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After years of watching Google and Apple dominate the business of selling smartphone software to consumers, Verizon Communications is aiming to alter the playing field by building an industry coalition to launch a new, global online store for mobile applications.

The company hopes to create a different kind of app store, one that would let software developers take full advantage of specific features of wireless-carrier networks while also offering consumers new ways of discovering the mobile software they might want. The store would be for devices powered by Google's Android operating system, which are used by about a billion people around the world.

The Verizon-led discussions with other carriers and hardware manufacturers are still at an early stage, according to a person who has been involved in the initiative and a wireless industry executive who is familiar with it. The effort faces a host of obstacles. Verizon just last year shut down a three-year-old app store that offered software only for Verizon's 100 million-plus U.S. wireless subscribers, and multi-carrier app-store efforts have similarly come to grief.

A Verizon spokesman declined to comment.

There doesn't appear to be much customer demand for a new storefront. The Google Play app store dominates the field when it comes to Android devices, and efforts to build alternatives have had limited traction outside of jurisdictions like China, where the Play store is effectively barred by the government.

But in talks with software developers and hardware makers about the new app store, Verizon has discussed the downsides of having just two players—Apple and Google—control virtually all app distribution. Verizon has said it hopes to “balance the ecosystem” and provide developers and consumers with more options. Specifically, Verizon has talked up the potential benefits of allowing software developers to advertise their wares in the store, something that the Apple and Google stores don’t currently permit.

More than Downloads

Verizon also wants to go beyond simply offering apps for download; it aspires to create a service that proactively recommends apps to people based on data like their location, the time of day and what their friends are doing on their phones. That would give the store some of the characteristics of so-called “launcher” or “lockscreen” apps for Android phones that try to anticipate the apps a person might need.

For instance, when a person gets into a car, such software can monitor a device’s sensors and know it’s on the move, automatically showing navigation or music apps that are great for travel. (Yahoo and Twitter each acquired an Android launcher app recently.)

The existing Apple and Google app stores are still relatively primitive when it comes to tailoring the offerings to individuals. In some ways they resemble the early days of Google’s Web search engine, which once showed simple search results but now includes information that’s relevant to a specific person based on their search history, social connections and other factors. Both Apple and Google, along with various startups, are now **trying to bring** a new level of sophistication to app discovery and app search.

The carriers have various tools they can use to position themselves as better partners for app developers. Incentives could include discounting the amount of data an app consumes, which would make it more attractive to customers who pay for data plans. Or carriers could make apps run faster by using their “deep packet inspection” systems, which can quickly identify certain content and deliver it more efficiently to customers.

“There are unique capabilities of the networks that aren’t being utilized,” says one person who has been involved in the effort.

Carriers can also offer “carrier billing,” meaning that purchases could be billed to the customers’ wireless account rather than require a credit card or some other means. While carrier billing is standard for Android devices sold in the U.S., it’s not available with some carriers in other parts of the world.

Carriers and hardware manufacturers that sell Android-powered devices have an especially acute reason for pursuing an alternative to the Google Play store now. Over the past year or so, Google has reduced the percentage of Google Play revenue it doles out to such partners, from 25 percent to 15 percent in most cases. (Google used to keep 5 percent but now it keeps 15 percent.) Apple keeps all 30 percent, and both stores give 70 percent to developers.

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While it’s not a material amount of money for most carriers and manufacturers at present, the Google Play revenue pie will continue to grow and there are fears Google will find ways to keep even more for itself.

Apple’s 30 percent cut of app store revenue amounted to around \$4 billion over the past year, while Google generated around \$2 billion before splitting revenue with carriers and handset makers, based on figures disclosed by the two companies. Some Android partners also have revenue sharing agreements related to Google’s Web search engine.

Carriers once controlled most aspects of mobile phone software and lorded over developers. But they have largely been kicked out of that business over the past five years as the iPhone and devices powered by Google’s Android operating system took over, along with their built-

in app stores. While many carriers have struggled since, Verizon's core wireless subscription business has performed well relative to its peers in recent years.

History of Failures

There have been previous efforts by carriers to turn the tide against Google and Apple. Four years ago, a group of several dozen carriers that are part of a trade group called the Groupe Speciale Mobile Association got together to form a global app store.

But analysts say the initiative, which included Verizon Wireless and was called the Wholesale Applications Community, failed for many reasons. Developers were forced to work out business deals with each individual carrier, and some big phone makers didn't go along with the project. And WAC was initially aimed at mobile-Web apps as opposed to native apps, which perform better on smartphones.

Other efforts have been individual in nature. Telefonica, for instance, partnered with Mozilla to promote Firefox OS, an operating system for smartphones that comes with its own app store. Others have tried to promote Microsoft's Windows Mobile devices in their physical stores, with limited success.

Carriers around the world have also tried—mostly in vain—to make money from their own apps. Some are still trying to convince consumers to use their file-storage services or mobile wallets. Many also have an app "preload" business, in which they take commission from app makers like Dropbox and Evernote in exchange for pre-installing the apps on their phones.

There has been resistance to preloading, particularly for apps that aren't already popular; the practice has derisively been called "bloatware." Apple doesn't allow carriers to preload apps on its devices.

Update: After this report was published, a company spokeswoman, Debra Lewis, said Verizon had "no plans" to launch an app store but did not dispute or comment on this report or its details. The Information stands by this report.

Amir Efrati is executive editor at The Information, which he helped to launch in 2013. Previously he spent nine years as a reporter at the Wall Street Journal, reporting on white-collar crime and later about technology. He can be reached at amir@theinformation.com and is on Twitter [@amir](https://twitter.com/amir)

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Amir Efrati I

Executive Editor - The Information

For those wondering why Verizon would make such a comment and not offer any other guidance, I strongly recommend reading my colleague Jessica's article on the subject, called "Misleading Pushback on Media Reports Does Nobody Good." It will stay relevant for a long time.

<https://www.theinformation.com/Misleading-Pushback-on-Media-Reports-Does-Nobody-Good>

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👍 3



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Another person familiar with this initiative at Verizon told me the company's discussions with potential partners for an app store coalition were at an "extremely early stage" and Verizon is sensitive about it because it doesn't want to disturb its existing partnership with Google. (Verizon sells Android devices and gets a revenue share from search and Google Play, as noted in the piece.) Verizon "wants to create something that nobody knows about until the day it launches," this person added. "Even simple projects like office consolidations have code names inside the company and people sign internal NDAs," this person said.

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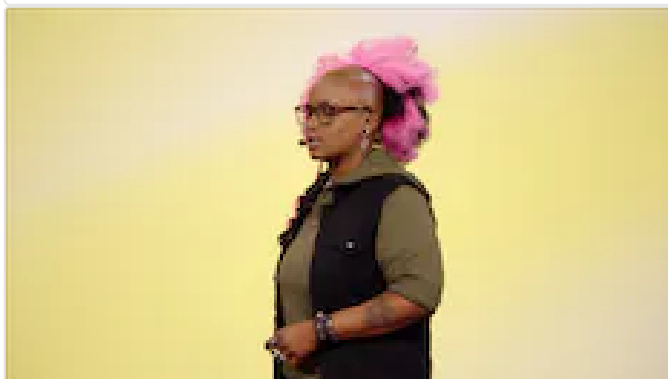
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